



## *Report to the Auburn City Council*

Action Item
Agenda Item No. 6

City Manager's Approval
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**To:** Honorable Mayor and City Council Members  
**From:** George E. Williams, City Treasurer  
Andy Heath, Administrative Services Director  
**Date:** November 23, 2009  
**Subject:** Quarterly Report of Investments – Quarter Ending September 30, 2009

### *The Issue*

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

### *Recommended Action Requested*

Receive, review and file the "City of Auburn Quarterly Investment Report" for the quarter ending September 30, 2009.

### *Background*

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending September 30, 2009 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet its pooled expenditure requirements for the next six months.

**Analysis****INVESTMENT SUMMARY***City of Auburn Pooled Investment Accounts:*

<i>For the quarter ended:</i>	<u>September 2009</u>	<u>June 2009</u>	<u>September 2008</u>
Portfolio value – end of quarter:	\$9,299,726	\$10,982,299	\$9,977,454
Portfolio effective yield – end of quarter:	2.26%	1.98%	3.62%
Dollar-weighted days to maturity – end of quarter:	509	460	737
Portfolio interest earnings (1) – end of quarter:	\$39,007	\$50,877	\$127,561
Net unrealized gain / (loss) (2) – end of quarter:	\$36,113	\$43,306	\$(125,734)

*Auburn Urban Development Authority Account:*

<i>For the quarter ended:</i>	<u>September 2009</u>	<u>June 2009</u>	<u>September 2008</u>
Portfolio value – end of quarter:	\$4,705,558	\$4,621,211	N/A
Portfolio effective yield – end of quarter:	2.33%	2.41%	N/A
Dollar-weighted days to maturity – end of quarter:	244	321	N/A
Portfolio interest earnings (1) – end of quarter:	\$3,651	\$80,696	N/A

Sewer Revenue Bond Proceeds Account

<i>For the quarter ended:</i>	<u>September 2009</u>	<u>June 2009</u>	<u>September 2008</u>
Portfolio value – end of quarter:	\$8,214,458	N/A	N/A
Portfolio effective yield – end of quarter:	0.80%	N/A	N/A
Dollar-weighted days to maturity – end of quarter:	382	N/A	N/A
Portfolio interest earnings (1) – end of quarter:	\$689	N/A	N/A

- (1) Interest earnings on investments distributed to City during reporting quarter.
- (2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

**PORTFOLIO / TREND ANALYSIS**

As a means to account for the investment of both Auburn Urban Development Authority (AUDA) and Wastewater Treatment Facility Upgrade Project bond proceeds received in October 2008 and August 2009, respectively, the Investment Report includes appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated to include appropriate investment information related to the bond proceeds held in trust.

Attachment A provides detailed information for each of the City’s investments as of the quarter ended September 30, 2009. Investments are categorized into one of five groups:

**Fixed Rate Investments:** Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also included in this group. Fixed Rate Investments, consistent with the City’s Investment Policy, are generally held to maturity and not sold in the open market.

**Pooled Investments:** Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

**Unrestricted Financial Institution Investments:** Unrestricted operating account monies available in demand accounts for accounts payable and payroll. Certificates of deposit and money market accounts are also included with this group.

*Restricted Financial Institution Investments:* Restricted demand accounts maintained for the payment of obligations for designated city programs.

*AUDA / Sewer Revenue Bond Proceeds:* All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and have been placed in the CDARS Certificate of Deposit Program, which is 100% FDIC insured. Matured CDARS investments remain with the Bond Proceeds Trustee in a liquid money market account until drawn on by the City to cover applicable project expenditures.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio yield as of September 30, 2009 is 2.26%. The effective yield has increased 28 basis points (0.28%) when compared to the yield reported for quarter ended June 30, 2009 (1.98%). The slight improvement in investment yield can be attributed to a quarter-over-quarter decrease in amounts invested with depository institutions (shorter-term maturities) relative to longer-term investments.

During the quarter ended September 30, 2009, the City realized \$39,007 in investment earnings. In addition to the investment earnings, the City experienced a \$36,113 unrealized gain in portfolio market value. Unrealized market gains and losses, which are required to be amortized into the portfolio value, fluctuate from month-to-month in response to overall market conditions.

As discussed in previous investment reports, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond as of September 30, 2009 was \$21,250. The unrealized loss of \$103,750 has been fully amortized as a component of investments earnings.

In response the bankruptcy action taken by Lehman, the City has filed the necessary proof of claim with the United States Bankruptcy Court – Southern District of New York. Also, the City has entered into an agreement with a professional legal services firm to assist with the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. Finally, the City continues to participate with a working group of more than 80 cities, counties and special districts with combined Lehman exposure of approximately \$1.67 billion, seeking reimbursement of losses through the Federal Government's \$700 billion Troubled Assets Relief Program (TARP) signed into law on October 3, 2008. The working group continues to work towards engaging in hearings before the House Financial Services Committee and the Treasury Department to discuss the merits of using

TARP funds to reimburse municipalities for losses stemming from the Lehman bankruptcy.

During the quarter ended September 30, 2009, the City's pooled investment portfolio decreased by approximately \$1.7 million (not including bond proceeds held in trust). The decrease in portfolio value can be wholly attributed to the timing of the receipt of major revenue sources, which typically occur in January and May each year consistent with the distribution of County property tax and assessment revenues.

All investments held at September 30, 2009 conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of September 30, 2009, funds on deposit and anticipated revenue collections for the period October 1, 2009 through March 31, 2010 are sufficient to meet all anticipated City expenditures during the same period.

### **PORTFOLIO INVESTMENT EARNINGS**

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2009-10 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<i><b>Quarter Ending 09/30/09</b></i>			
Budget	2.00%	\$ 12,500	\$ 67,813
Actual (1)	1.56%	<u>11,544</u>	<u>67,916</u>
Variance		<u>(\$ 956)</u>	<u>\$ 103</u>

(1) Includes amortization of unrealized market value loss

### **Alternatives Available to Council; Implications of Alternatives**

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

### **Fiscal Impact**

The current year-to-date yield on investment earnings received for the City's portfolio of investments is 1.56%. An average yield of 2.00% was forecasted in the City's adopted budget for Fiscal Year 2009-10. Attainment of interest revenues consistent with forecasted yields is directly contingent on average cash balances held in citywide funds.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

City of Auburn  
Portfolio Analysis  
Quarter Ending September 30, 2009

Attachment A

9/30/2009

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<b><u>Fixed Rate Investments</u></b>			
US Government Bonds	\$ 2,538,595	3.15%	1,507
Corporate Notes	408,338	4.90%	932
Negotiable Certificates of Deposit	502,164	3.79%	391
Subtotal:	\$ 3,449,097		
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Dollar-Weighted Average Yield:		3.45%	
Dollar Weighted Days to Maturity:			1,277

**Pooled Investments**

State of California LAIF	\$ 41,654	0.75%	1
Placer County Investment Pool	2,119,275	2.69%	1
Subtotal:	\$ 2,160,929		
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Dollar-Weighted Average Yield:		2.65%	
Dollar Weighted Days to Maturity:			1

**Unrestricted Financial Institution Investments**

Wells Fargo Bank - Commercial Checking	\$ 1,469,493	0.01%	1
Wells Fargo Bank - Payroll Checking	56,453	0.01%	1
Citizens Bank - CDARS Program	504,803	1.25%	134
Citizens Bank - CDARS Program	500,000	2.20%	134
Community First Bank - Cert of Deposit	500,000	2.27%	382
UMPQUA Bank Money Market	516,500	0.89%	1
ML Stern Securities (Money Markets)	14,927	0.09%	1
	\$ 3,562,176		
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Dollar-Weighted Average Yield:		0.94%	
Dollar Weighted Days to Maturity:			92

City of Auburn  
Portfolio Analysis  
Quarter Ending September 30, 2009

Attachment A

9/30/2009

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<b><u>Restricted Financial Institution Investments</u></b>			
Bank of America - Chiropractic Checking	\$ 4,899	0.00%	1
Bank of America - Vision Checking	3,305	0.00%	1
Bank of America - Dental Checking	9,281	0.00%	1
Bank of America - Landfill Closure Account	93,998	0.20%	1
Placer Sierra Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 127,524</u>		

Dollar-Weighted Average Yield: 0.15%  
Dollar Weighted Days to Maturity: 1

Unrestricted Investment Portfolio Valuation	\$ 9,172,202	2.29%	516
Restricted Investment Portfolio Valuation	\$ 127,524	0.15%	1
Total Pooled Investments Portfolio Valuation	\$ 9,299,726	2.26%	509
Total AUDA Bond Proceeds Account	\$ 4,705,558	2.33%	244
Total Sewer Revenue Bond Proceeds Account	\$ 3,214,458	0.80%	382

**City of Auburn**  
**Bond Maturity - Detail**  
**Quarter Ending September 30, 2009**

**Attachment A**

9/30/2009

	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
<b><u>US Agency Bonds</u></b>			
Federal National Mortgage Assn (\$500K)	534,845	3.86%	5/28/2013
Federal Farm Credit Bank (\$500K)	503,750	2.98%	2/25/2013
Federal Farm Credit Bank (\$500K)	500,155	2.90%	4/7/2014
Federal Farm Credit Bank (\$500K)	499,845	2.95%	4/7/2014
Federal Farm Credit Bank (\$500K)	500,000	3.00%	4/28/2014
Subtotal:	<u>\$ 2,538,595</u>		
Dollar-Weighted Average Yield:		<u>3.15%</u>	
Dollar Weighted Days to Maturity:			<u>1,507</u>

**Corporate Notes**

HSBC Finance Corp (\$125K)	128,504	5.11%	1/14/2011
Lehman Brothers Holdings (\$125K)	21,250	0.01%	1/18/2012
Citigroup, Inc (\$125K)	128,969	5.14%	10/17/2012
Merrill Lynch (\$125K)	129,615	5.26%	2/5/2013
Subtotal:	<u>\$ 408,338</u>		
Dollar-Weighted Average Yield:		<u>4.90%</u>	
Dollar Weighted Days to Maturity:			<u>932</u>

**Negotiable Certificates of Deposit**

First Regional Bank (\$98K)	98,422	3.58%	11/30/2009
Washington Mutual Bank (\$98K)	99,753	3.68%	5/28/2010
Discover Bank (\$98K)	100,947	3.88%	11/29/2010
Capmark Bank (\$98K)	101,521	3.91%	5/31/2011
Provident Bank (\$98K)	101,521	3.91%	5/31/2011
Subtotal:	<u>\$ 502,164</u>		
Dollar-Weighted Average Yield:		<u>3.79%</u>	
Dollar Weighted Days to Maturity:			<u>391</u>

UBOC Total Valuations	<u>\$ 3,449,097</u>	<u>3.45%</u>	<u>1,277</u>
Cost Basis:	<u>\$ 3,489,285</u>		
Net Unrealized Gain:	<u>\$ (40,188)</u>		



CITY OF AUBURN  
TREASURY INVESTMENT POOL  
QUARTERLY COMPARISONS

Attachment B

	City of Auburn Pooled Investment Accounts		City of Auburn Pooled Investment Accounts		City of Auburn Pooled Investment Accounts	
	Investment Amounts at 9/30/09	Current Investment Yield	Investment Amounts at 6/30/09	Current Investment Yield	Investment Amounts at 3/31/09	Current Investment Yield
State of California L.A.I.F.	\$ 41,654	0.75%	\$ 41,498	1.51%	\$ 41,304	1.91%
Placer County Treasury Investment	2,119,275	2.69%	2,105,898	2.70%	2,092,554	3.08%
US Gov't/Agency Bonds (held by UBOC)	2,538,595	3.15%	2,525,625	3.16%	1,536,250	3.67%
Negotiable Certs. of Deposit (held by UBOC)	502,164	3.79%	500,845	3.81%	501,189	3.80%
Corporate Notes (held by UBOC)	408,338	4.90%	386,514	5.17%	335,740	5.96%
ML Stern & Piper Jaffray	14,927	0.09%	14,927	0.15%	14,927	0.15%
Citizens Bank (CDARS Program)	1,004,803	1.72%	1,000,041	2.13%	1,000,041	2.13%
Wells Fargo Bank (Checking and Payroll)	1,525,946	0.01%	3,236,017	0.01%	3,588,385	0.10%
Bank of America (Landfill Trust Account)	93,998	0.20%	122,090	0.20%	112,731	0.30%
Bank of America (Vision Account)	3,305	0.00%	3,373	0.00%	3,438	0.00%
Bank of America (Dental Account)	9,281	0.00%	9,321	0.00%	9,256	0.00%
UMPQUA Bank (Money Market Demand)	516,500	0.89%	515,145	1.54%	513,048	2.54%
Community First Bank (Cert. of Deposit)	500,000	2.27%	500,000	2.27%	-	0.00%
Granite Community Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,899	0.00%	4,964	0.00%	5,027	0.00%
<b>Totals</b>	<b>\$ 9,299,726</b>	<b>Overall Yield = 2.26%</b>	<b>\$ 10,982,299</b>	<b>Overall Yield = 1.98%</b>	<b>\$ 9,769,931</b>	<b>Overall Yield = 2.00%</b>
<b>AUDA / Sewer Bond Proceeds Accounts</b>						
Reliance Trust - AUDA (CDARS Program)	\$ 4,705,558	2.33%	\$ 4,701,907	2.41%	\$ 4,621,211	3.43%
Reliance Trust - Sewer (CDARS Program)	\$ 8,214,458	0.80%	N/A		N/A	
<b>Summary of Investments</b>						
	<b>9/30/2009</b>		<b>6/30/2009</b>		<b>3/31/2009</b>	
State Pool	0.2%	\$ 41,654	0.3%	\$ 41,498	0.3%	\$ 41,304
County Pool	9.5%	2,119,275	13.4%	2,105,898	14.5%	2,092,554
Corporate Bonds	1.8%	408,338	2.5%	386,514	2.3%	335,740
U.S. Agencies	11.4%	2,538,595	16.1%	2,525,625	10.7%	1,536,250
Negotiable Certificate of Deposit	2.3%	502,164	3.2%	500,845	3.5%	501,189
Financial Institutions	16.6%	3,689,700	34.6%	5,421,919	36.6%	5,262,894
Bond Proceeds / Debt Svc Reserve	58.1%	12,920,016	30.0%	4,701,907	32.1%	4,621,211
Investment Total	100.0%	\$ 22,219,742	100.0%	\$ 15,684,206	100.0%	\$ 14,391,142

**CITY OF AUBURN  
TREASURY INVESTMENT POOL  
QUARTERLY COMPARISONS**

Attachment B

	City of Auburn Pooled Investment Accounts		City of Auburn Pooled Investment Accounts		City of Auburn Pooled Investment Accounts	
	Investment Amounts at 12/31/08	Current Investment Yield	Investment Amounts at 09/30/08	Current Investment Yield	Investment Amounts at 06/30/08	Current Investment Yield
State of California L.A.I.F.	\$ 41,042	2.77%	\$ 40,757	2.77%	\$ 40,446	3.11%
Placer County Treasury Investment	2,076,409	3.33%	2,056,926	4.14%	2,036,193	4.05%
US Gov't/Agency Bonds (held by UBOC)	3,037,300	3.96%	4,481,230	4.03%	4,980,580	4.21%
Negotiable Certs. of Deposit (held by UBOC)	496,220	3.84%	484,357	3.94%	483,504	3.94%
Corporate Notes (held by UBOC)	373,686	5.35%	362,325	5.52%	488,811	5.87%
ML Stem & Piper Jaffay	14,926	1.33%	14,902	2.66%	14,848	0.87%
Citizens Bank (CDARS Program)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (Checking and Payroll)	1,063,621	0.45%	1,319,013	1.80%	2,122,606	1.22%
Bank of America (Landfill Trust Account)	112,731	0.30%	128,786	0.30%	94,309	0.30%
Bank of America (Vision Account)	3,494	0.00%	3,572	0.00%	3,629	0.00%
Bank of America (Dental Account)	9,405	0.00%	9,425	0.00%	9,505	0.00%
UMPQUA Bank (Money Market Demand)	510,473	2.54%	1,054,972	2.90%	1,047,339	3.06%
Community First Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Granite Community Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	561,138	3.75%
Bank of America (Chiropractic Care Acct)	5,086	0.00%	5,148	0.00%	16,041	0.00%
<b>Totals</b>	<b>\$ 7,760,434</b>	<b>Overall Yield = 3.20%</b>	<b>\$ 9,977,454</b>	<b>Overall Yield = 3.62%</b>	<b>\$ 11,904,154</b>	<b>Overall Yield = 3.53%</b>
<b>AUDA / Sewer Bond Proceeds Accounts</b>						
Reliance Trust - AUDA (CDARS Program)	\$ 4,602,133	3.43%	N/A		N/A	
Reliance Trust - Sewer (CDARS Program)	N/A		N/A		N/A	
<b>Summary of Investments</b>						
	<b>12/31/2008</b>		<b>9/30/2008</b>		<b>6/30/2008</b>	
State Pool	0.3%	\$ 41,042	0.4%	\$ 40,757	0.3%	\$ 40,446
County Pool	16.8%	2,076,409	20.6%	2,056,926	17.1%	2,036,193
Corporate Bonds	3.0%	373,686	3.6%	362,325	4.1%	488,811
U.S. Agencies	24.6%	3,037,300	44.9%	4,481,230	41.8%	4,980,580
Negotiable Certificate of Deposit	4.0%	496,220	4.9%	484,357	4.1%	483,504
Financial Institutions	14.0%	1,735,777	25.6%	2,551,859	32.5%	3,874,620
Bond Proceeds / Debt Svc Reserve	37.2%	4,602,133	0.0%	N/A	0.0%	N/A
<b>Investment Total</b>	<b>100.0%</b>	<b>\$ 12,362,567</b>	<b>100.0%</b>	<b>\$ 9,977,454</b>	<b>100.0%</b>	<b>\$ 11,904,154</b>

**CITY OF AUBURN**  
**TREASURY INVESTMENT POOL**  
**QUARTERLY COMPARISONS**

	Investment Amounts at 03/31/08	Current Investment Yield	Investment Amounts at 12/31/07	Current Investment Yield	Investment Amounts at 09/30/07	Current Investment Yield
City of Auburn Pooled Investment Accounts						
State of California I.A.L.F.	\$ 40,031	4.18%	\$ 39,539	4.80%	\$ 39,026	5.24%
Placer County Treasury Investment	30,096	4.36%	29,767	4.68%	29,288	5.14%
US Gov't/Agency Bonds (held by UBOC)	3,517,970	4.36%	3,496,410	4.00%	7,333,622	4.73%
Negotiable Certs. of Deposit (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Corporate Notes (held by UBOC)	499,058	5.67%	499,605	4.00%	498,175	4.01%
ML Stern & Piper Jaffray	14,810	1.61%	14,747	2.48%	14,651	3.00%
Citizens Bank (CDARS Program)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (Checking and Payroll)	4,081,156	1.90%	1,268,453	3.57%	(209,768)	3.98%
Bank of America (Landfill Trust Account)	62,525	0.30%	58,214	0.30%	34,004	0.30%
Bank of America (Vision Account)	3,687	0.00%	3,738	0.00%	3,788	0.00%
Bank of America (Dental Account)	9,545	0.00%	9,648	0.00%	9,668	0.00%
UMPQUA Bank (Money Market Demand)	1,038,832	4.01%	32,873	5.48%	32,441	5.48%
Community First Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Granite Community Bank (Cert. of Deposit)	555,859	3.75%	549,981	5.26%	542,816	5.26%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	5,260	0.00%	5,310	0.00%	5,354	0.00%
<b>Totals</b>	<b>\$ 9,874,870</b>	<b>Overall Yield = 3.29%</b>	<b>\$ 6,024,326</b>	<b>Overall Yield = 3.98%</b>	<b>\$ 8,349,106</b>	<b>Overall Yield = 4.67%</b>
<b>AUDA / Sewer Bond Proceeds Accounts</b>						
Reliance Trust - AUDA (CDARS Program)	N/A		N/A		N/A	
Reliance Trust - Sewer (CDARS Program)	N/A		N/A		N/A	
<b>Summary of Investments</b>	<b>3/31/2008</b>		<b>12/31/2007</b>		<b>9/30/2007</b>	
State Pool	0.4%	\$ 40,031	0.7%	\$ 39,539	0.5%	\$ 39,026
County Pool	0.3%	30,096	0.5%	29,767	0.4%	29,288
Corporate Bonds	5.1%	499,058	8.3%	499,605	6.0%	498,175
U.S. Agencies	35.6%	3,517,970	58.0%	3,496,410	87.8%	7,333,622
Negotiable Certificate of Deposit	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	58.6%	5,787,715	32.5%	1,959,005	5.4%	448,995
Bond Proceeds / Debt Svc Reserve	0.0%	N/A	0.0%	N/A	0.0%	N/A
<b>Investment Total</b>	<b>100.0%</b>	<b>\$ 9,874,870</b>	<b>100.0%</b>	<b>\$ 6,024,326</b>	<b>100.0%</b>	<b>\$ 8,349,106</b>

